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Report Highlights: Cotton demand in Vietnam remains strong as the textile industry continues to expand rapidly. Vietnam's 2006/07 cotton-production improved slightly over last year due to better crop yield, but it still only accounts for 5% of total demand. Market Year 2006/07 cotton imports are expected to reach record levels of 210 thousand metric tons in response to demand from the garment and textile sector. The United States remains the second largest supplier of cotton to Vietnam, though exports declined slightly in 2006 due to strong competition. Imports from India increased sharply as traders sought out cheaper markets.

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SITUATION AND OUTLOOK

Vietnam is now ranked among the top ten garment and textile-exporting countries in the world. Exports for 2006 were valued at \$5.8 billion, with sales to the United States, the largest buyer, accounting for \$3.1 billion. Vietnam has ambitious targets for its textile industry, with exports projected to reach \$7 billion in 2007 and, for the longer term, \$10-12 billion by 2010. Various strategies for investments to achieve these goals currently exist, and since 2006, five new private textile companies with capacity of 100,000 spindles or more have opened. This has triggered an increase in demand for cotton. Given Vietnam's land constraint and competition from other agricultural activities, Vietnam must rely heavily on imports to fulfill its cotton needs.

Vietnam's cotton lint production in 2006/2007 was only 10.56 tmt, while cotton imports for the first nine months of the market year (August-April) were 160.4 tmt, with the year-end total projected to reach as high as 210 tmt. Cotton imports for 2007/2008 should continue to climb in response to continued expansion in the textile sector. U.S. cotton currently has a 20% share of the import market, which is reportedly highly price-sensitive. While the United States has been the second largest supplier for at least the last four years, it has been slowly losing market share to competitors, the most noted of which is India, which jumped from a market share of 5.7% in 2005 to 18.3% in 2006.

STATISTICAL TABLE

Table 1: Vietnam's Cotton Production, Supply and Demand (PS&D table)

Country	Vietnam								
Commodity	Cotton					(HECTARES) 1000 480 lb. Bales (PERCENT)(KG/HA)			
	2005	Revised		2006	Estimate		2007	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		08/2005	08/2005		08/2006	08/2006		08/2007	08/2007
Area Planted	0	0	0.0	0	0	0.0	0	0	0.0
Area Harvested	23	0	22,600.0	23	0	21,600.0	0	0	23,000.0
Beginning Stocks	162	0	66.0	160	0	68.0	159	0	162.4
Production	48	0	48.0	49	0	48.5	0	0	52.0
Imports	700	0	711.0	775	0	963.9	0	0	1,009.0
MY Imports from U.S.	0	0	0.0	0	0	0.0	0	0	0.0
Total Supply	910	0	825.0	984	0	1,080.4	159	0	1,223.4
Exports	0	0	0.0	0	0	0.0	0	0	0.0
Use	750	0	757.0	825	0	918.0	0	0	1,032.0
Loss	0	0	0.0	0	0	0.0	0	0	0.0
Total Dom. Cons.	750	0	757.0	825	0	918.0	0	0	1,032.0
Ending Stocks	160	0	68.0	159	0	162.4	0	0	191.4
Total Distribution	910	0	825.0	984	0	1,080.4	0	0	1,223.4
Stock to Use %	21.33	0.00	9.0	19.27	0.00	17.7	0.00	0.00	18.5
Yield	454	0	460	464	0	488	0	0	492

Source: FAS, Official USDA Estimates, post estimates

PRODUCTION

Though cotton may be grown throughout Vietnam, commercial cotton production is concentrated in the Central Tay Nguyen Highlands and the Southeast. The largest cotton growing areas are found in Dak Lak, Dak Nong and Gia Lai provinces in the Central Highlands, which accounts for about 40 to 50 percent of Vietnam's cotton production area. The second largest cotton growing areas can be found in the Southeast in Dong Nai, Binh Thuan, Binh Phuoc, Ba Ria and Vung Tau provinces. Commercial cotton is not produced in the lowland areas of the Red River and Mekong River Delta, which are prime growing areas for rice, Vietnam's major export commodity. (see table 2)

Cotton production in Vietnam is highly susceptible to weather conditions as more than 80% of the cotton production area is rain-fed, with planting initiated in the rainy season (June/July/August) and harvesting in November/December/January. In areas with irrigation, cotton crops can be planted in the dry season (November/December) allowing for harvesting in April/May/June. Irrigated cotton areas are in decline in the face of strong competition for this resource from the more lucrative corn, beans and vegetable crops.

Table 2: Vietnam's 2004 - 2006 cotton production by regions

Growing regions	2004			2005			2006		
	Areas	Yield	Production	Areas	Yield	Production	Areas	Yield	Production
	1000 ha	mt/ha	tmt	1000 ha	mt/ha	tmt	1000 ha	mt/ha	tmt
Red River Delta	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
North East	0.5	1.0	0.5	0.4	0.8	0.3	0.3	0.8	0.2
North West	4.3	0.8	3.5	3.2	0.7	2.2	4.0	0.8	3.0
North Central Coast	0.2	1.0	0.2	0.2	0.5	0.1	0.2	0.5	0.1
South Central Coast	2.7	1.8	4.8	2.0	1.9	3.7	2.0	2.0	3.9
Central Highlands	10.6	0.9	9.5	9.6	1.5	14.1	8.3	1.6	12.8
South East	8.4	1.2	10.1	7.2	1.2	8.5	6.9	1.3	9.0
Mekong River Delta	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Vietnam	26.7	1.07	28.6	22.6	1.3	28.9	21.6	1.34	29.0

Source: Ministry of Agriculture and Rural Development (MARD)

Vietnam 2006/07 Cotton Production

The cotton production area for Vietnam's 2006/07 crop is estimated at 21.60 thousand ha, reflecting a slight decrease from the 22,600 ha planted in 2005/06. Some farmers in key cotton areas of the Tay Nguyen Central Highland and the South East have been switching from cotton to crops with better economic returns; namely corn, beans and rice. The profit margin for these crops is estimated to be 20% to 30% higher than that of cotton, largely due to their higher price. Lower investment from the Vietnam Cotton Company, (VCC) the leading cotton company in Vietnam, is also a factor in the reduction of cotton crop area. VCC initiated such measures as providing input (seed, fertilizer and pesticides) advances to farmers and purchasing their entire cotton harvest, in an effort to encourage them to grow more cotton. These inputs were reportedly valued at VND 1,700,000 (\$106) per/ha for rain-fed cotton and VND 2,500,000 (\$156) per/ha for irrigated cotton. The return was, however, less than expected due to competition from crops with higher earnings. As a result, VCC cotton production area has decreased to about 17,000 hectares for the 2006/2007 crop.

Despite a decline in Vietnam's 2006/2007 cotton production area, cotton production maintained the level of the previous crop year, thanks to better crop yield. VCC reports an improvement in the ginning outturn rate (GOR) for Vietnam cotton, which it attributes to better cotton quality and ginning facilities. The current ginning rate of 36.5% enabled Vietnam's 2006/07 cotton lint production to increase slightly over the previous year to 10.56 tmt. (see table 3)

Table 3: Vietnam's cotton production (2004-2007)

	2004/05	2005/06	2006/07	2007/08
Crop area (THA)	26.5	22.6	21.60	23.00
Crop yield (MT/HA)	1.07	1.28	1.34	1.35
Seed cotton production (TMT)	28.68	28.9	28.94	31.05
GOR	36.0	36.0	36.5	36.5
Cotton fiber production (TMT)	10.32	10.40	10.56	11.33

Source: GSO, VCC and Post estimate

Vietnam 2007/08 Cotton Production

According to agronomists and the industry, it will be difficult for cotton production in Vietnam to significantly expand over the next few years without government investment in research activities focused on producing high-yield and pest-resistant varieties. Higher world prices could also induce some farmers to increase production and ebb the flow of those turning to more profitable crops. Post, nevertheless, estimates Vietnam's 2007/08 cotton crop will increase to about 31.05 thousand metric tons due to better crop yields and some increase in the growing area in response to the high cotton demand and expected higher prices.

PRICES

Domestic prices

The Vietnam Cotton Company (VCC) has been buying seed cotton at an average price of VND 6,500/kg (\$0.404/kg), an increase of VND 500/kg (\$0.031/kg) over the previous crop price. VCC is selling cotton fiber to textile mills at VND 20,000-20,500/kg (\$1.24-1.27/kg).

Import prices

According to Vietnam's Customs Office, in the first quarter of 2007, the average import price of cotton fiber was \$1.21/kg, pointing to a modest increase over last year, as reflected in Table 4 below. This price level is, nevertheless, still well below the price of 3 years ago.

Table 4: Vietnam's average cotton import prices

	Jan-June 2003	Jan-June 2004	Jan-June 2005	Jan-June 2006	Jan-April 2007
Cotton fiber US\$/kg)	1.2	1.4	1.1	1.18	1.21

Source: trade sources

(VND 16,070 to \$1 as of May 25, 2007)

Current indicative offer prices (CIF Ho Chi Minh City Port) for West African cotton (Jul/S) and U.S. cotton (Fibermax 31-3-34) were about \$1.27/kg and \$1.28/kg, respectively. Traders noted that offer prices for U.S. cotton have softened recently, improving the prospects for selling U.S. cotton to Vietnam in the coming months.

TRADE

According to Vietnam's Customs Office, in MY 2005/06, Vietnam imported almost 153 thousand metric tons (702 thousand bales) of cotton fiber with a value of US\$ 178 million, or \$1.16/kg. Cotton imports through the first 9 months (August–April) of MY 2006/07 were 160 thousand metric tons (736 thousand bales), a full 4.7% more than total imports for the entire MY 2005/2006, due to lower carry-over stocks and higher demand from the textile industry (see table 5).

Post estimates Vietnam's 2006/2007 cotton imports will climb sharply to 210 thousand metric tons (964 thousand bales) to keep pace with increasing demand from Vietnam's vibrant and rapidly expanding textile industry.

Cotton imports for 2007/08 are expected to increase by 5 to 7 percent. Post, therefore, estimates Vietnam's 2007/2008 cotton imports at 220 thousand metric tons (1,009 thousand bales). (see PS&D table)

Table 5: Vietnam MY - 2005/06 and 2006/07 cotton imports

	2005/06			'2006/07		
MY begins:	8/1/2005			8/1/2006		
	Quantity (mt)	Value (US\$1,000)	Price (US\$/mt)	Quantity (mt)	Value (US\$1,000)	Price (US\$/mt)
August	16,523	18,501	1,120	16,420	20,065	1,222
September	7,382	8,280	1,122	17,000	20,995	1,235
October	8,153	9,669	1,186	24,850	31,560	1,270
November	8,462	9,440	1,116	16,000	20,112	1,257
December	13,342	14,873	1,115	16,600	20,883	1,258
January	11,276	12,877	1,142	15,000	18,225	1,215
February	9,956	11,459	1,151	19,000	23,047	1,213
March	15,496	18,239	1,177	18,500	22,200	1,200
April	16,367	19,542	1,194	17,000	20,876	1,228
May	14,000	16,772	1,198			
June	16,200	19,440	1,200			
July	16,000	19,200	1,200			
Total (Aug-April)	106,957	122,881	1,149	160,370	197,963	1,234
Total	153,157	178,293	1,164	*** 210,000		

Source: Customs Office and FAS' estimate

***estimated data

Vietnam's Primary Cotton Suppliers

Table 6 provides estimates of Vietnam's cotton imports from calendar years 2003 through 2006. In 2006, Vietnam imported an estimated 190 TMT of cotton, a year-on-year increase of almost 27%. West Africa, the largest single supplier in all four years, provided 32.9% of Vietnam's cotton imports for 2006. The United States supplied 19.9%, and India provided 18.3%, a marked increase from its 5.7% share in 2005.

Table 6: Sources for Vietnam's Cotton Imports 2003-2006*(1,000 tons)*

Country/Region	2003	2004	2005	2006
West Africa	36,000	70,660	66,000	62,500
United States	29,528	43,618	39,000	37,771
India	215	3,125	8,500	34,720
Mexico	2043	5,028	6,000	8,500
CIS	4,500	1,560	6,000	6,500
Australia	999	N/A	2,500	2,800
Pakistan	N/A	N/A	N/A	2,200
Iran	N/A	N/A	N/A	1,800
China	1022	285	1,432	500
Syria	399	652	894	N/A
Unknown	13,294	10,972	22,000	32,709
TOTAL	88,000	135,900	150,000	190,000

Source: Trade and Ministry of Trade

U.S. cotton exports to Vietnam dropped slightly in 2006 (see table 7). According to industry reports, relatively higher U.S. cotton prices caused traders to seek out cheaper markets in India and West Africa. Traders forecast cotton imports from the U.S. will increase in the second quarter of 2007 as the import price for U.S. cotton is softening due to lower demand from China.

Table 7: U.S. cotton exports to Vietnam

	2003	2004	2005	2006	2007 (Jan-Mar)
Quantity (mt)	30,357	43,618	38,659	37,771	9,153
Value (\$1,000)	34,304	66,218	47,676	46,876	11,706

Source: BICO, US Department of Commerce, U.S. Census Bureau, and Foreign Trade Statistics

CONSUMPTION

Vietnam's domestic cotton consumption continues to increase to meet strong demand from the expanding textile industry. Demand for textiles is strong, both for the local uses and for export. Domestic cotton consumption has been increasing at an average rate of 10-15% per year. Post estimates domestic cotton consumption for 2006/2007 at 200 tmt (918 thousand bales), and for 2007/2008 at 225 tmt (1,032 thousand bales). (see PS&D Table).

POLICY

Tariffs on Cotton

There is no tariff on imported cotton, but it is charged a 10% value added tax.

Vietnam's Equalization Program for State-owned Enterprises

The Vietnam Cotton Company (VCC) was the leading state-owned company in charge of the national cotton development program, which used to be strongly supported by both the government and state-owned textile mills. These days, as part of the commitment under WTO to reduce support programs, the government has been promoting equalization of state-owned enterprises, leaving VCC and major textile mills (Viet Thang, Thanh Cong and Thang Loi) to become joint-stock companies with shares being sold to the public. In so doing, the

Government is relinquishing much of its influence and control over VCC, which must now sell its cotton at market prices in competition with cotton from other countries.

Biotech Cotton in Vietnam

On August 26, 2005, the government issued Decree No.212/2005/QĐ-TTg (see VM5062) to provide the legal framework for GMOs in Vietnam. Several ministries were required to write the implementing regulations to allow field trials and eventual commercialization of biotech crops in Vietnam. The Ministry of Agriculture and Rural Development (MARD) has written the regulations for field trials of biotech crops, but it is still under review and has not yet been approved. Biotech cotton, corn and soybeans are the three crops being considered for field trials once the regulations are approved.

Despite there being no approved regulations for growing transgenic cotton in Vietnam, there have been reports of Bt cotton being grown in the Central Highlands, as evidenced by results of a survey on crop production conducted by a research institute. The Ministry of Agriculture and Rural Development (MARD) has confirmed that production of Bt cotton is not allowed in Vietnam, as the legal framework for commercial production has not yet been approved. MARD is unaware of the source of farmers' Bt cotton seeds, the trading of which is considered illegal in Vietnam. Data on Bt cotton production are unavailable.